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The Transatlantic Trade and Investment Partnership

A critical approach

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With the arrival of globalization, free trade is being presented as the path to economic growth and job creation. However, many times, free trade deals have not lived up to their expectations.

The Transatlantic Trade and Investment Partnership (TTIP), a deal between the European Union and the United States, aims at reducing barriers to trade between these two economies by implementing certain measures, some of them widely criticised by the public.

Much has been said about the TTIP since its conception in 2013, not much has been done. I am analysing this treaty due to the scope and potential impact it would have on the world's economy, as it is an attempt to merge the two biggest markets and although negotiations currently are on hold, if this agreement sees the light, it would drastically change international trade as we know it.

My intention is to first explain what is trade and how is it carried out, to then break down the TTIP, explaining what are the arguments that support it, why is it criticised and which might be the intentions behind it.

In doing this, I attempt to reach an objective conclusion and present to the reader what could be expected as an outcome to a deal of such dimensions.

Keywords	trade, investment, TTIP, economy, globalization, FTA, EU, US

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1 Introduction

1.1 Context

Globalization is a reality, and it´s unstoppable. On one side, there are those associating this term to growth and development. On the other side, those that are afraid of big corporations taking over the economy, causing environmental issues and increasing the gap between rich and poor.

This thesis deals with the Transatlantic Trade and Investment Partnership (TTIP), a free trade agreement between the United States (US) and the European Union (EU) that has been undergoing negotiations since 2013 and is aimed to cut tariffs and lower regulation barriers in order to make trade easier between the US and the EU markets.
While EU Commission President Jean Claude Juncker states that “It is anachronistic that, in the 21st century, Europeans and Americans still impose customs duties on each other's products… we can go a significant step further in recognising each other’s product standards or working towards transatlantic standards.”, other people, such as the Green Party (a left-wing political party in England and Wales) Leader, Natalie Bennett, think that “The proposed trade deal is a huge threat to our democracy and our sovereignty.” (Leala Padinabhan, 2014)

Thus, some questions arise: Who is right? Who would benefit from such a deal? What is being negotiated?

1.2 Where are we now?

The truth is, since Donald Trump became President of the United States in 2016, negotiations on the TTIP have stalled. Several months after Trump´s election, in the EU, Trade Commissioner Malmström announced that all things considered, “TTIP is now in the freezer”. (Corporate Europe Observatory, 2017)

However, last year, a report from the US Trade Representative stated that “while important differences remained on critical negotiating areas of the agreement, the book was never closed on TTIP.” (US Annual Report, 2017) In addition to this, later in the same year, US Secretary of Commerce Wilbur Ross stated that the US is “open for discussion on the TTIP”. (Peter Buxbaum, 2017)

Therefore, it seems obvious that a trade deal between both economies is on President Trump´s agenda. It´s just a matter of time when negotiations will be resumed.

1.3 Why does the TTIP matter?

Even though nobody knows what can be expected of the TTIP in the future, one thing is certain: the impact that such a deal would have on the global economy. The US and EU, trade more than $1 trillion every year. By harmonizing regulations between both economies, the EU-US trade block would become the widest free trade area in the world, covering 45% of global GDP (WEF, 2016), which would have great impact on trade at a global scale.

Great criticism and uncertainty have surrounded the deal since the very beginning; the secrecy and rush with which negotiations between both parties were carried out during the early stages of the process affected negatively the credibility of the project.
The main concern is that, since tariffs are already low, the main benefits from this agreement would come from the "harmonization of regulations", which has been widely criticized because it is seen as a threat to Europe´s strict rules and standards on areas such as food safety, GMOs, environment and health. Obviously, the EU Commission has stated that such an agreement would never overwrite EU laws nor undermine EU Treaties and regulations. Yet it is estimated that 80% of the economic benefits of the deal would stem from the elimination of such regulatory barriers. (About the EU, 2014)
In addition, there are fragments of the agreement such as the investor-to-dispute-settlement (ISDS), an instrument of public international law that allows investors to sue states if they lose profit because of state regulation, that seem to favour big corporations instead of the European population and only help to further fuel the scepticism that the TTIP has been facing. Therefore, what is the real purpose behind such an agreement and how can we know how will it affect us?

1.4 Research Question

The research question thus could be the following: What is the TTIP about and what are its possible outcomes?

By breaking down what is a very comprehensive and detailed document, I attempt to shed light on the most critical points of the deal, helping the reader to build their own opinion on an issue that, if come true, will have great worldwide impact.

1.5 Methodology

This thesis paper has been written based on secondary data. The main goal is to analyse such data and provide a solid background for more accurate assessment of this certain issue. Therefore, the research has been carried out by extracting and analysing information from various sources such as official statements, reports, articles and research projects.

1.6 Limitations

When a study is based solely on secondary data, the writer might have to face some issues concerning the reliability and objectivity of the sources and data collected. When most of the sources are online, availability becomes a threat too, since many articles might not be available after a certain time or inaccessible for various reasons (e.g., geographical restrictions, paid services or membership requirements)

In order to tackle the credibility issue, this study does not attempt to prove any concrete phenomenon, rather, the objective is to contrast different theories and ideas so that the reader can have a clearer picture of such a broad topic. The ultimate goal thus is to generate a debate and create awareness on the TTIP, so that further research can be conducted.

2 Free Trade

Firstly, I would like to familiarise the reader with certain concepts and ideas that are essential to understand Free Trade Agreements (FTAs) and the reasons behind them. In this chapter, the reader will understand what is free trade, which are the benefits and threats associated with it and why is it relevant.

2.1 Definition

According to a business dictionary, free trade is:

"The interchange of goods and services (but not of capital or labour) unhindered by high tariffs, nontariff barriers (such as quotas), and onerous or unilateral requirements or processes." (Business Dictionary, 2018) It is also defined as a policy of unrestricted foreign trade with no tariffs or subsidies on imports or exports and no quotas or other trade restrictions. (Dictionary of Economics, 2018)

A Free Trade Agreement happens when nations reach a deal on trade between them. This means that they determine together which will be the tariffs and duties they impose on imports and exports and/or shape their regulations to better match those of their partner(s) while maintaining their respective external tariffs to other non-participating countries. According to Amadeo, a recognized business analyst who is known for explaining complex economic concepts, (Free Trade Agreements, 2018) free trade among nations can happen in three different ways:

Unilateral Free Trade: It happens when a country applies a certain trade policy regardless of what other nations might decide. The main benefit remains in the effectiveness and easiness with which this can be implemented, since decisions are made unilaterally. Developed nations have sometimes taken such measures just to help emerging markets strengthen certain industries. For instance, if a country decides to raise its tariffs, this would increase the price of imports, which would allow local producers to have a price advantage, creating new jobs and boosting the economy. However, in the long term, other countries might take the same path and increase their tariffs respectively, which would negatively affect local exports, taking away all the benefits that such measures had brought in the beginning.

This is what happened with the Great Depression in 1929, when countries adopted protectionist policies in order to secure domestic jobs. As a consequence, global trade dropped 65 percent and it wasn´t until the aftermath of World War II that the General Agreement on Tariffs and Trade (GATT) would take place, eliminating all unilateral trade restrictions of each of the signing members, allowing the global economy to recover. (Trade Policy, 2017) The GATT was replaced by the World Trade Organization (WTO) in 1995. The WTO is *"a global organization dealing with the rules of trade between nations; a forum for governments to negotiate trade agreements… It operates a system of trade rules"* (WTO, 2018) and now, 128 nations are part of it.

Bilateral Free Trade: Two countries agree to loosen trade restrictions to expand business opportunities between them, which is carried out through the lowering of tariffs and barriers. The complications in such trade agreements usually centre around key protected domestic industries, as it is the case with the TTIP, where talks have faced great hostility since they touch on sensitive areas for us Europeans such as food, agriculture or health care. Bilateral free trade potentially brings greater benefits than unilateral free trade since it is an agreement between two nations and it is easy to negotiate compared to multilateral free trade agreements, where there are more than two negotiators. However, it is not easy to reach an ambitious bilateral agreement, such as the TTIP, when it intends to merge two huge markets, regulated by different rules and standards, representing two different cultures with different goals. This is the reason why negotiations on the TTIP are taking much longer than what was expected in the beginning, since the goals of Europeans differ from those of Americans and finding common ground in controversial matters such as the above mentioned is a hard task to fulfil when negotiating parties are not willing to commit to their counterparts.

Multilateral Free Trade Agreements: These are the most complex deals since three or more countries must reach an agreement together, considering the individual requests of each one of them. However, once accomplished, multilateral agreements are powerful and cover large geographic areas. This confers a great competitive advantage to its members. (Free Trade Agreements, 2018a) Currently, the largest multilateral agreement is the North American Free Trade Agreement (NAFTA), between the US, Canada and Mexico. The consequences of NAFTA are still controversial, because while trade almost quadrupled among these nations, many jobs were lost in the agricultural sector for Mexico and the nation found itself depending even more on the US, which had devastating effects on the nation during the crisis of 2008.

It is interesting to note that while Mexico´s GDP per capita growth from 1960 to 1980 was of 97 percent, from 1980 to 2000, coinciding with the NAFTA and a bad handled debt crisis, it dropped to just 13 percent. While NAFTA seemed to be attempting to allow Mexico to break free from its previous protectionist policies by boosting economic growth, it can be deduced that NAFTA certainly did not have a positive impact on Mexico´s GDP, which grew at a much slower pace (1.2 percent per year) than what was expected from the initial agreement. (CEPR, 2017; 5-6) This can be further proved when we compare Mexico´s growth to that of other developing nations before and after NAFTA, as is shown in Figure 1 below.

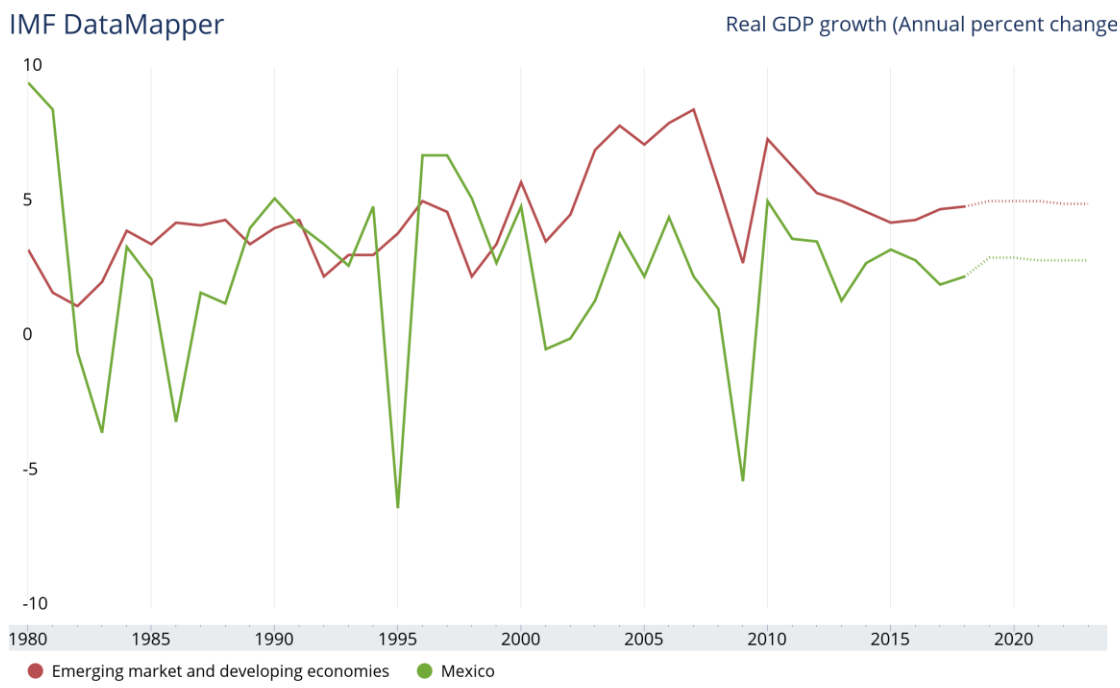

Figure 1. Average annual GDP growth in Mexico vs. other Developing Economies
Source: IMF, 2018

While it is true that Mexico´s GDP growth was rather discrete since the 1980s, it is a fact that after NAFTA, things did not get much better, proving that it is not hard to sell (yet nearly impossible to predict) the real outcomes of ambitious multilateral free trade agreements.

2.2 The Concepts Behind: Absolute Advantage & Comparative Advantage

Free trade is currently seemed as the best trade policy and a path leading to growth and cooperation between countries. However, there are many people who view free trade sceptically and believe that governments should protect their own industries from foreign companies. Next, the concepts of Absolute Advantage and Comparative Advantage are explained, to help the reader understand the pillars behind free trade and how do they influence trade policy today.

2.2.1 Absolute Advantage

This is how Adam Smith, the father of modern economics and one of the most influential economists of all time, would put it:

"It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy... If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage." (Alan S Blinder, 2008)

This quote, extracted from his book The Wealth of Nations (1776), was laying foundation for the theory of absolute advantage, which is also essential to understand why free trade has been promoted across the globe.

During the eighteenth century, protectionism and mercantilist policies were predominant in the market. Adam Smith argued that such ideas would not lead to the wealth of a nation. He explained how wealth is created when labour division is carried out in a way that leads to specialization. Such specialization leads to higher efficiency, achieving economies of scale, understood as economies that achieve maximum results with minimum investment. (Economy Watch, 2010)

Such economies lead to having an absolute advantage, which is achieved when a nation has absolute efficiency in the production of a good in comparison to another nation. According to Adam Smith, countries should thus produce those commodities that grant them an absolute advantage, importing products in which they have an absolute disadvantage. This idea would go completely against the predominant mercantilist thought, since it also entailed less involvement from the Government in the economy.

2.2.2 Comparative Advantage

After reading Adam Smith´s book, David Ricardo, an English economist, built on Smith's assumptions to further develop what is known as the theory of comparative advantage. It explains why two countries should still specialize in the production of a certain product, even if any of them had an absolute advantage over the other on the production of both products. This theory of comparative advantage has become the rationale for free trade agreements and the very basis of international trade until after First World War, when it would gain criticism and be reshaped to better match the needs of ever more complex societies.

Ricardo proved his theory with a real-life example: During the beginning of the nineteenth century, England manufactured cloth at a very low cost and Portugal had the perfect climate to produce wine. He predicted that Portugal would stop making cloth and import it from England, while England would stop producing wine and import it from Portugal. Some years later, that was exactly what happened. The reason behind was that England´s climate was not appropriate for wine production and Portugal didn´t have enough capacity to produce cheap cloth. Therefore, both countries agreed on trading their products, allowing themselves to be more efficient by focusing on what they were good at. (A. Kimberley, 2017)

An example we could find in our days is India's call centres; American firms tend to buy this service because it is cheaper than locating the call centre in the US. Indian call centres aren't arguably better than U.S. call centres since their workers don't always speak English very clearly. Yet they provide the service cheaply enough to make the tradeoff worth it.

It could be argued that the theory of comparative advantage explains why trade protectionism couldn´t work in the long run: If lobbies push political leaders to raise external tariffs to protect their jobs from international competition, this also hurts a country´s competitiveness since it forces consumers to pay higher prices for local products, while also incurring the risk of wasting resources on inefficient industries. As Boudreaux states:

"*Foreigners are willing to export only because they want to import. It is the desire for profitable exchange of goods and services that motivates all specialization and exchange."* (D. J. Boudreaux, 2008)

It seems thus, that the idea behind free trade is associated to specialization. Countries will exploit the industries in which they have either a comparative or an absolute cost advantage to generate a surplus that will further be traded in exchange for products that would be costlier to produce locally. As a result, a nation´s welfare should rise due to international trade, creating a win-win situation for all participating countries.

However, Ricardo´s ability to oversimplify such complicated matters sometimes ignored certain aspects, which has led to some criticism of his theory. Some of the criticism states that labour cost is just a small portion of the total cost of production, hence making his predictions inaccurate. Others say that this theory is incomplete since it simplifies reality, is based on many assumptions and does not consider all the factors (e.g., barriers to trade, transport, demand or the government) that influence international trade. (A. V. Deardoff, 1998; 28:30, 38:40)

Despite the many different views on this theory, it is true that it is well respected among economists worldwide. All in all, it defends that lower barriers to trade boost competition, efficiency and growth, which are the premises used by Governments to defend free trade nowadays. It is obvious that these two concepts of absolute advantage and comparative advantage are the basis for trade as we know it and it is undeniable that they have resisted the years because they have proved to be right to some extent.

2.3 Benefits and Threats of Free Trade

As we have seen, free trade brings both economic benefits and costs, but there is no consensus among economists if the benefits of trade liberalization outweigh the costs and threats. Most authors writing about trade liberalization evaluate it positively, but don´t seem to like the other side of the coin, which would be the disadvantages it may generate.

2.3.1 Benefits

The main argument for trade liberalization is that exposing a country’s economy to international competition leads to greater efficiency. By allowing goods and services to flow freely between nations, trading partners receive a variety of benefits:

- **Open Market access**. Nations can gain access to new markets instantly because of trade liberalization. As the Organisation for Economic Co-operation and Development (OECD) officially states:

"*This results in certain benefits measured in terms of economic growth, productivity, a higher standard of living, further innovation, stronger institutions and infrastructure, and even promotion of peace."* (OECD, 2010)

- **New Trade Opportunities**: Because of new trade opportunities, supply can happen from a more efficient producer, a phenomenon that helps nations to be more efficient, by focusing on their strong industries and increase their welfare. (Drozdz, 2011) Trade creation thus happens when production shifts from local producers to a lower cost producer in another country. This is consequence of a fall on import prices that leads local consumers to import cheap from abroad rather than to buy local.

- **Comparative Advantage**: By specialising in goods where countries have a lower opportunity cost, an increase in economic welfare for all countries can be achieved as it has been previously stated by explaining the theory of Comparative Advantage.

- Because of such specialization, countries can take advantage of efficiencies generated from **economies of scale** and increased output (as stated by Adam Smith). International trade opens a whole new market for firms, resulting in lower average costs and increased productivity, ultimately leading to increased production. This is even more obvious with sectors that require high levels of investment because the variation in expenses and efficiency will be substantial. (Drozdz, 2011)

- **Job Creation**: According to the European Commission, free trade generates growth and higher paid jobs. For example, after four years since its FTA with South Korea, the European Union experimented an increase in exports of over 45%. Every €1bn in exports from the EU is calculated to support around 14,000 jobs. These jobs tend to be higher paid (up to 15% more) than those that do not rely on exports. (EC, 2016) This is due to the fact that such jobs usually require a higher level of education and experience than other industries would. (D. Ricker, 2015; 8:9)

- **Collaboration:** Another result of free trade is an increase in competition between corporations and a bigger focus on innovative production methods, the use of new technologies and new marketing and distribution methods. This leads competitors to create new partnerships and networks to remain able to grow and develop within their industries. Therefore, free trade allows nations and corporations to extend their network and create new partnerships that could not be possible otherwise.

- **Lower Prices:** The reduction of barriers and the increase in competition push prices down and further increase the variety of products and services offered. This can be beneficial for the final consumers but could represent a threat to those that produce the goods and sell them.

2.3.2 Threats

Despite the many obvious benefits of free trade, there are certain disadvantages that often have more to do with how free trade is implemented rather than with free trade itself. Therefore, when free trade is implemented, it brings along certain consequences that could be positive or negative, depending on how it is implemented:

- **Unemployment:** One of the main concerns about trade liberalization is the increase in imports it implies. This leads to a decline in domestic employment rates. By removing trade barriers, unemployment occurs in the short term and it may be hard for workers to find a job in industries that are constantly growing. To illustrate this concept, the following figures explain the consequences of NAFTA, which entered into force in 1995, on Mexico's corn farmers:

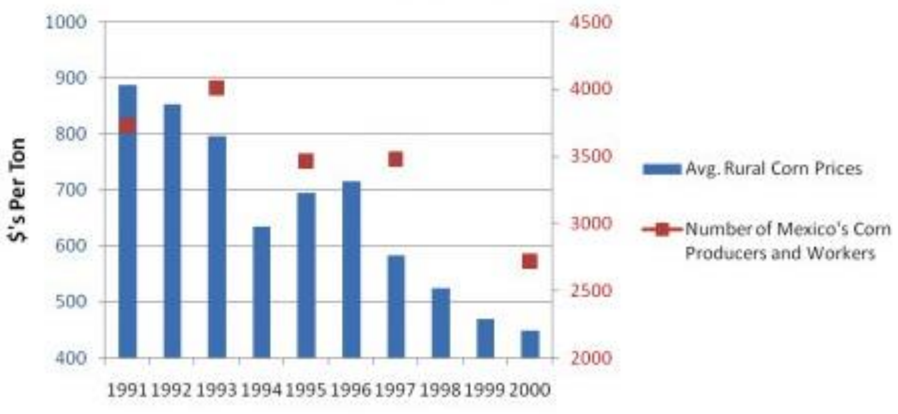

Figure 2. U.S. Corn Prices and Employed Corn Farmers in Mexico

Source: Journal of International Affairs

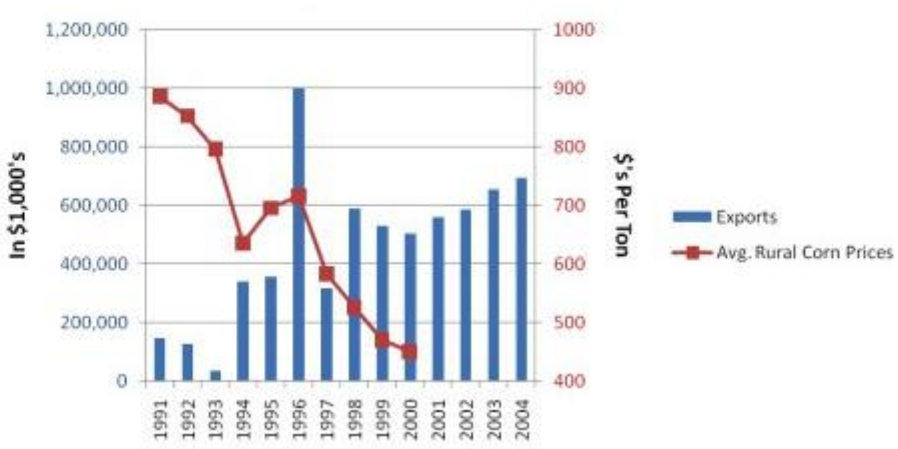

Figure 3. U.S. Corn Exports and Domestic Corn Prices in Mexico
Source: Journal of International Affairs

When American corn, which was profiting of domestic subsidies in the U.S., flooded the Mexican market, the domestic price for corn plummeted. This forced Mexican small-scale farmers (who made up 72% of Mexico´s corn producers) to migrate to urban areas, while big corporations were taking their piece of the pie. (Relinger, 2010)

- **Aggressive Competition:** When a market opens to trade, domestic firms may face import competition from foreign firms, as can be seen in the previous graphs. Such situation forces firms to look for new competitive advantages in the form of low-cost or differentiation.

- **Economic Instability:** Economic Instability increases as one of the consequences of free trade agreements is that nations become more interdependent, meaning that nations become more exposed to recessions in the economies of their trading partners. Therefore, while free trade can help increase external market access for industrialised nations, it can also generate political and economic instability, mostly in developing countries, due to the high dependency they have on external factors. (Drozdz, 2011)

- **Inflexibility:** As stated above, by specializing in some industries, a nation can take even greater advantage of free trade. This however requires narrowing the area of knowledge, skills and activities. While there are great advantages to this, there are some negative effects too, such as the inability to adapt to fast-changing markets with strong competition due to the lack of resources (e.g. skills, technology or workforce). As an example, one could think of a developing country such as Somalia, which heavily depends on agriculture (60% of GDP). (World Atlas, 2018) If new technologies become available for other industries and competitors begin to implement them into their productive processes, Somalia can fall behind if it is not able to integrate innovation into its productive process. Competitors would be able to lower their prices as a consequence of new innovations and Somalia would not be able to remain competitive.

- **Inequality:** Nations that depend heavily on the primary sector are more sensitive to price changes and might find themselves indebted to wealthier nations since income from their exports can´t compensate for imports from wealthier nations. Double standards such as subsidizing local products while promoting free trade are another constraint that developing nations such as Mexico, have faced when signing FTAs with more powerful nations. This leaves poorer countries in a critical situation, since their local products can't face the competition of subsidized foreign imports. In words of Joseph Stiglitz, Nobel Prize in Economics:

  "Free Trade Agreements are totally asymmetric; instead of promoting equality and democracy, they are limited to satisfy the interests of certain sectors and elites. They serve as a bridge between globalization and the sharpening of inequalities."

- **Cultural identity**: Many countries wish to protect themselves from what they see as an Americanisation or commercialisation phenomena. When foreign goods enter the local market, cultural convergence happens. It means, cultures gradually merge with each other becoming more homogeneous as a consequence of globalization. Some see this as an enriching experience, others such as France or Canada impose measures to protect their national identities. Truth is, this is a global world now and the entry of China and India into the world economy, together with an accelerating growth in Asia and other regions have brought billions of new consumers into the global market, making nations more interconnected than ever. (Trade Agreements, 2017; 1-2)

3 TTIP: Transatlantic Trade and Investment Partnership

3.1 Definition

On words of the EU Commission:

“The transatlantic trade and investment partnership (TTIP) is a free trade agreement currently being negotiated between the European Union and the United States. The aim of the agreement is to create growth and jobs on both sides of the Atlantic by removing trade barriers. Removing trade barriers would boost and facilitate the buying and selling of goods and services, as well as investment on both economies. “(About the EU, 2014)

3.2 Background

To understand the nature of such a deal, we must go back to its roots:
The World Trade Organization (WTO) was created during the *1980s* with a focus on the liberalization of trade and investing at a worldwide level. Since then, this organization has been promoting Free Trade Agreements at both sides of the Atlantic.

In 1995, the Transatlantic Business Dialogue (TABD) was set up by the Chief Executives from the most powerful transnational corporations operating in the EU and the US. This group’s aim was to lobby for the removal of regulations affecting their activities, by advocating an agreement to realize that goal. (Pollack, 2003)

In 2007, with the creation of the Transatlantic Economic Council, the Transatlantic Business Dialogue saw an opportunity to press for a free trade area based on deregulation by pressing the European Commission and the US government. In 2011, responding to this pressure, the European Commission and US Officials announced the creation of a group that would identify and assess options for strengthening the EU-US trade ties. Its conclusions, submitted in February 2013, recommended the initiation of negotiations for a bilateral free-trade agreement.

On the same month, Barack Obama announced the beginning of negotiations on a Transatlantic Trade and Investment Partnership (TTIP). The following day, the EU Commission President Jose Manuel Durao Barroso announced that talks would take place to negotiate the agreement. Four months later, in July 2013, the first round of talks would come about. (Public Affairs, 2013)

3.3 Nature and Scope

The European Commission breaks this agreement into three main sections:

- Market access: removing customs duties on goods and restrictions on services, gaining better access to public markets, and making it easier to invest
- Improved regulatory coherence and cooperation by dismantling unnecessary regulatory barriers such as bureaucratic duplication of effort
- Improved cooperation when it comes to setting international standards

3.4 Trade Relationship between the EU and the US in short

The EU accounts for 15% of the world's trade in goods and its most common destination for goods exported is the US, which accounts for more than 20% of EU´s exports (more than the next two countries combined). In the following figure, nations are classified according to their volume in international trade. Both the EU and the US represent the widest global markets.

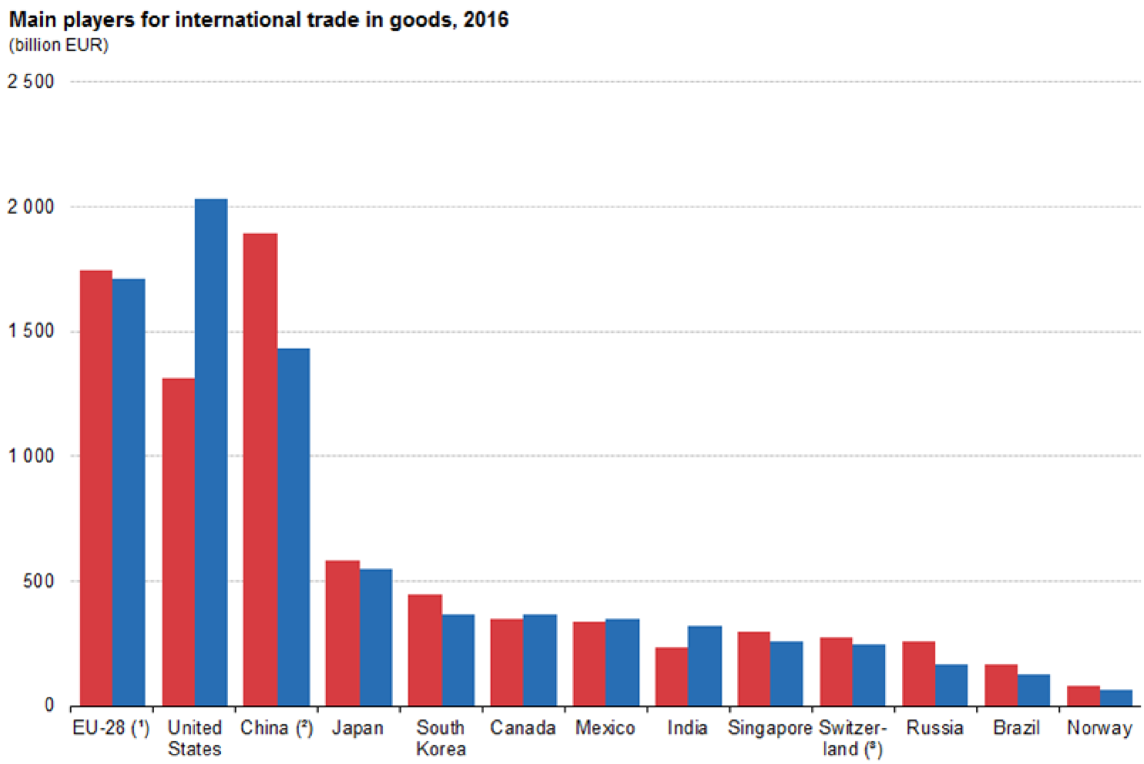

Figure 4: Main players for international trade in goods, 2016.
Source: Eurostat

- Total bilateral trade in commodities ascends to €455,000 million, with a positive balance of €72,000 million for the EU. The US was the third largest provider for the EU with €192,000 million in exports in commodities, while being the main market for EU exports, buying more than €264,000 million in commodities.
- The main trade areas are machinery and transports (€71,000 million in imports and € 104,000 million in exports) followed by chemicals (approx. €41,000 million in imports and €62,000 million in exports).
- In total, trade between both economies averages around €2,000 million per day. (Eurostat, 2017)

3.5 The Official Statements

Many have been the analyses on the possible impacts of the TTIP. On this chapter I am focusing on studies and reports in which the European Commission has been involved. Below, the reader will find data from the official studies commanded by the European Commission that present the potential outcomes if the TTIP is successfully fulfilled.

3.5.1 Study n.1: London Centre for Economic Policy Research

In March 2013, the London Centre for Economic Policy Research published an exhaustive document about the potential outcomes of the TTIP between the EU and the US. (CEPR, 2013) It is classified as an independent study by the European Commission, however, it was ordered by the European Commission's Trade Commissioner Karel De Gucht. The document examines in detail the current transatlantic trade and investment flows and the obstacles to them. Then, several economic models are applied in order to calculate the potential impact of different political scenarios.

This document stands out the enormous benefits from the liberalization of trade between the EU and the US, not only for these two trade blocks, but to the world's economy. The overall outcomes of the study are:

<u>General Benefits</u>

- An ambitious Trade and Investment Partnership could bring considerable economic benefits for the EU (€119,000 million per year) and for the US (€95,000 million per year), once fully applied. This can translate into an increase of €545 on the income of an average four-member family in the EU per year.

- Such benefits for both the EU and the US would not be at the expense of the rest of the world. On the contrary, the liberalization of trade between both economies would have a positive impact on world income and trade, with an increase on the rest of the world's GDP of almost €100,000 million.

  If the EU and the US are able to collaborate in the future to establish better trade rules and reduce the differences between their regulations, some of these cost reductions in trade would directly benefit third parties, encouraging their partners to adapt to the new transatlantic regulations, a situation that could benefit an increasingly interdependent world economy.

- Income growth is the result of the increase in trade. EU exports to the US would increase a 28%, which means an additional amount of €187,000 million in EU's products and services total exports. Trade between the EU and the US with the rest of the world would increase in more than €33,000 million. Altogether, the increase in EU exports would be of a 6% and an 8% for the US. This means that EU and US exports increase by €220,000 million and €240,000 million respectively.

Sectorial Benefits

- EU exports would increase almost in every sector; however, this increase would be tangible particularly in metals (+12%), processed foods (+9%), chemical products (+9%), other manufactured products (+6%) and transportation (+6%).

- All in all, the greatest increment in trade would happen in the automotive sector. EU exports are expected to rocket up by more than a 42%, as well as its imports (42%). If we focus on EU-US trade, EU exports to the US would increase by 149%, which evidences the relevance of this sector and the need for compatibility between both regulatory regimes.

- Such increases in exports and production in almost every industry prove the great efforts of liberalization that such a deal will imply. Particularly the automotive sector, characterized by high tariffs and barriers, will greatly profit from such measures.

Non-tariff barriers

- Reduction of non-tariff barriers should be the key element in the liberalization of trade. Up to 80% of the potential benefits proceed from reduction of costs imposed by bureaucracy and regulations, as well as liberalization of trade in services and public sector.

Labour Market

- The intensification of trade practices and the increase of productivity originated by the treaty will benefit labour markets in the EU and the US, in terms of global salaries (wages would increase by 0.5% in both the EU and the US) and new job opportunities.

Sustainable Development

- The treaty would have insignificant effects in CO_2 emissions and the sustainable use of natural resources, among others.

All the benefits above stated bring along a series of requirements in order to achieve such results. After the study carried out by the Centre for Economic Policy Research in London, EU´s High-Level Working Group on Asylum and Migration (HLWG) determined that there were certain actions deemed essential. The Council of the European Union defines the HLWG as:

"A group that prepares the ground for concrete actions of implementation, including the identification of countries and of priorities. It deals with the external dimension of the EU's asylum and migration policies, dialogue, cooperation and partnership with countries of origin and transit countries" (European Council, 2017)

The recommendations of their study are as follows: (TTIP Report, 2013)

- Elimination or reduction of barriers to trade in goods such as tariffs or duties
- Elimination, reduction or prevention of barriers to trade in goods, services and investments.
- Compatibilization and strengthening of regulations and standards.
- Elimination, reduction or prevention of barriers to trade such as burocracy or rules from every national government.

- Strengthening cooperation for development of normatives and principles in global matters of common interest, as to the consecution of global actions with economic objectives.

To achieve such objectives, the study provides some guidelines:

- The study encourages negotiators to liberalise trade between both economies as much as possible.

- It is then recommended that the main goal of the agreement should be that of eliminating all tariffs in a short period of time. It is recommended that such an extensive deal should include liberalisation on investment followed by strong investor protection, based on the highest levels of liberalisation and the highest standards of protection that have ever been negotiated. It is thus recommended that the main goal of negotiations is that of strengthening and protecting new business opportunities.

- The document states that most of the success that comes out of the deal will depend on the ability of both, the US and the EU, to reduce the negative impact that such barriers represent to business and investment, with the goal of progressively becoming a more integrated market, generating a shared regulatory framework which eliminates burocracy, barriers and rules. Therefore, the agreement must develop mechanisms that reduced the costs associated to regulatory differences, promoting the highest level of compatibility, including, wherever appropriate, harmonization of future regulations.

The study then proceeds to enumerate certain measures that both economies should implement, which, due to their length, will not be listed; however, the study is available online and listed on the references at the end of this paper if the reader wishes to carry out further research.

3.5.2 Study n.2: Small and Medium-Sized Enterprises

Worth mentioning are the Small and Medium-sized Enterprises (SMEs), since they are the backbone of the economy of the EU (SMEs represent 99% of all businesses in the EU). (EU Commission, 2018) Therefore, the European Commission has elaborated a document in which it attempts to explain the opportunities for business and growth that the future TTIP would mean for this sort of enterprises on different areas:

- Customs & Duties: There are millions of SMEs at both sides of the Atlantic, accounting for more than 30% of the overall exports between both markets. Reducing costs and bureaucracy, as well as increasing transparency at the frontiers would allow many SMEs to access the other side of the Atlantic for the first time.

- Standards and Non-Tariff Barriers: SMEs can be unfairly affected by non-tariff barriers, which can be in the shape of special requirements at the frontier or unnecessarily complicated or expensive regulations. This can have a negative impact on trade and innovation. Therefore, another main objective is to generate more transparency and openness, reducing unnecessary costs and converging regulations. Progress on this area would lower costs to the enterprises, opening new markets.

- Services: The EU and the US are the largest exporters of services in the world. Many providers of services (lawyers, architects, engineers, consultants, etc.) work in small enterprises, which usually are part of the big corporations' value chain. Such providers could benefit from greater legal security and new access to other markets.

- Intellectual & Industrial Property: SMEs are leaders in creativity and innovation, boosting the creation of new jobs and economic growth in the transatlantic market. Therefore, they need an elevated level of protection on their intellectual and industrial property rights, because they can be very vulnerable if those rights are infringed. TTIP would reaffirm the shared compromise of looking after the protection of SME's rights. (EC: SMEs, 2014)

3.5.3 Study n.3: The Bertelsmann Foundation

After evaluating the results from the previous study done by the London Economic Centre, the Berlin Forum on Global Politics, together with the Bertelsmann Foundation, carried out a new study that compares the current global outlook with a hypothetical future in which TTIP has been fully implemented. This means that the study assumes an imaginary scenario in which TTIP has been carried out in a very open and *liberalized* manner. This study was created as an attempt to find the real consequences of the TTIP, since its writers thought that previous studies were not accurate enough. In words of the authors: *"TTIP is sold as a panacea: an all-encompassing solution for most of the economic problems that the US and the EU face nowadays."* (Berlin, 2013)

This study concludes the following:

1 Trade between USA and Europe barely increases as a consequence of the elimination of tariffs.

2 Trade policies between the EU countries decrease as a consequence of the TTIP.

3 Trade between the USA and the BRICS (Brazil, Russia, India, China and South Africa) nations decreases considerably.

4 The reduction of non-tariff barriers clearly has large effects on the increase of per capita income, even more than with the abolition of tariffs.

5 The reduction of transatlantic tariffs to zero mainly benefits the poorest countries of the EU.

6 If the non-tariff barriers between the EU and the USA are eliminated along with tariffs, the per capita income will grow globally by an average of around 3.27%.

7 On average in the OECD countries, unemployment will fall close to 0.5%.

8 Around 2 million additional jobs will be created in the OECD countries.

9 Wages will increase around 2.3% in the OECD countries.

10 The TTIP leads to the convergence of labour markets.

Such outcomes greatly differ from those of previous studies and provide a new perspective on what could be expected of the TTIP. However, this study has received some critics because the models implemented to reach such conclusions are not explained anywhere in the document, which reduces the reliability of its conclusions. (E. Agirre, 2014)

4 The Critical Approach

Previous data and references originate from official documents and studies developed by American and European Institutions or through Investigation and Research Centres. The aim of this chapter is to contrast such information with external studies and opinions from experts on the field so that the reader can build an opinion on each of the issues discussed.

4.1 Context

Since WWII, suppressing barriers to international trade and investment has been part of the strategy of most countries, which started to prioritize in their economic policies foreign investment attraction and new markets to export, engaging thus in a new way of competition. This process became harmonized through the Round of Uruguay (1986-1995), which would lead to the creation of the WTO. However, the WTO did not result as effective as expected due to divergences of interests among the emerging and developed economies.

There was another globalizing strategy within the Free Trade Agreements called BIT (Bilateral Investment Treaty), which was created in 1959. Such agreements protected the interests of foreign investors at International Arbitration Tribunals. However, this piece of international law has proved to be very controversial since many corporations have used such agreements to their advantage, questioning the democratic principles of the nations. This will be explained in more detail below. (Hilary, 2014)

Since the NAFTA agreement among Mexico, Canada and the US, BITs have been completed with the dismantling of customs, duties and tariffs that impeded the circulation of commodities among the countries. The combination of both is what Free Trade Agreement (FTA) refers to. The US has signed multiple FTAs mainly with the countries where the US has strong political and economic power (e.g. Latin America, Arab countries, Israel, Canada, Australia & South Korea). Most of these countries have FTAs with the EU, which has signed FTAs with most of its European neighbours at the same time.
All in all, the TTIP would be the world's most ambitious FTA. It would not only set a new path for trade, but also would modify our reality in terms of society, economy, labour, environment and public health.

Because of that, there is a confrontation between public and private interests. What is frustrating is the lack of debate, information and public dialogue from the governments concerning the TTIP. The root of this issue could be found in the lack of transparency and credibility of an agreement of such dimensions, as well as the enormous interests of the private sector that motivate this agreement.

It is then licit to ask oneself, are the forecasts trustable? What is at stake with such proposals? Who will benefit from such an agreement? (Alcazar, 2014)

4.2 The Decision-Making Process

The work group that was set up in 2011 by the EU and the US to evaluate and assess the feasibility of the TTIP, consulted the “population” through 130 rounds of talks during their evaluating process. (G. Bercero, 2013) However, 119 of them were with corporations and only 11 were with actual consumer groups. Besides, it is not a secret that American companies who have never had access to our markets (e.g. agriculture, food or health care) are pushing from both sides to ensure that the TTIP opens the doors of the EU through deregulation.

In May 2014, there was an article published by The Guardian titled *“30,000 lobbyists and counting: is Brussels under corporate sway?”* in which these pressure groups are analysed. (Traynor, 2014)

The author mentioned that lobbyists influence over 75% of the decisions adopted in Brussels. As an example, he explains how phone companies have systematically opposed to any attempt from the Parliament to limit the abusive pricing that Europeans pay for using their phones. Later, he states:

> *“Thousands of companies, banks, law firms, public relations consultancies and professional associations are there to bend people´s ears and influence the rules and laws that make up the European single market, set trade agreements, and govern economic and commercial behaviour in a Union of 507 million”*

The author mentions that, according to the Europe Observatory, there are at least 30,000 pressure groups in Brussels, while the personnel working at the European Commission accounts for 31,000 people. It is then explained how, generally, political pressure groups influence in the decision-making process by *“informing and providing arguments”,* however they can be found along the parliament´s corridors or in any of the congressmen´s offices. The author then explains how every building belonging to the European Council and Parliament is peopled by Europe's biggest corporate names. (Traynor, 2014)

It wouldn´t thus be a wild thought if we said that much of the information provided by official sources about the TTIP was sweetened and manipulated by these lobbyists working for the interests of large companies and large investment groups.

The question that arises here clearly is: Who are the true policy-makers in the European Parliament? And, ultimately, who are the beneficiaries of regulations, agreements and treaties such as those presented by the TTIP?

4.3 Reliability of Sources

Among the most beneficial economic effects that are put on the table as arguments to support the TTIP, are the following:

- Increase in per capita income: The previously analysed report by the Bertelsmann foundation Indicates that TTIP would increase per capita income in $500 in the OECD, while, according to the London Centre for Policy Research, the TTIP would lead to an increase of €545 on the income of an average four-member family in the EU per year. Assuming this data is true, it is still not possible to ensure that such an increase in per capita income means that there will be a correct distribution of wealth, since such indicators do not consider who is actually benefitting from the agreement.

- Employment: The research paper from the London Centre for Economic Policy Research promises jobs (more than 1,000,000) and growth in both economies' GDP. This could be interpreted as a positive outcome; however, what has not been told is that such an outcome would exist only in a "best case scenario", furthermore, many have been the economists that have pointed out to the lack of scientific basis for such results. The model that has been used *"does not adjust to the global economic reality, ignoring essential factors and using unrealistic hypothetical scenarios".* (Alcazar, 2014)

  It was in 2014 when a researcher from the University of Tufts, named Jeronim Capaldo, decided to apply a different and more accurate model, since the above-mentioned model took for granted things such as perfectly elastic employment, which only exists in a utopic economic reality. The new model was the United Nations Policy Model (Applied from the UN to evaluate the impact of a country's policy on the world). Its results were far from what the EU had presented to the public. According to this model, there would be losses in terms of jobs (around 800,000), salaries, stability and GDP. Therefore, we can state that predicting the future outcomes of this agreement accurately is practically impossible, but the fact that only one model was applied by the official sources, makes the promised outcomes of the TTIP even more doubtful. (Capaldo, 2014)

- Trade Volume and Prices: Data tables provided by the Centre for Economic Policy Research clearly show that a reduction of trade tariffs would entail a net decrease in trade volume for most EU countries. (Alcazar, 2014) Moreover, in most cases, tariffs on trade between the US and the EU countries are very low, at around 4% on average. Therefore, they indicate and make it clear that it is essential for the success of the TTIP that new measures that enable the elimination of the so called non-tariff barriers are included; what this means is that those regulations that are limiting transatlantic trade must be eliminated and thus one could expect the standardization of regulations in areas such as labour or the environment, since tariff reduction would barely change the current economic outlook.

The Austrian Foundation for Development Research, one of the most prestigious investigation centres, elaborated a report regarding the consequences of TTIP on trade. (Raza, 2014) The massive inflow of north American low-cost products into the European market would notably reduce the intra-European trade (around 30% decrease) at the expense of the less export-oriented economies.

The Austrian Institute also considers that TTIP will have a negative impact on the exports and GDP of the less developed countries. According to them, the true beneficiaries of the TTIP would be the large corporations at the expense of the SMEs. It is not a surprise, since with lower regulations, big corporations would sweep SMEs that with less resources and less competitive power cannot face the even bigger competition from the big players.

Besides, the fact that in the last decades, these large businesses have cannibalized the market, absorbing a large number of companies and market share (e.g. Nestle, Unilever or Coca-Cola), fights against another of the economic arguments used by the official reports on the TTIP. That is, the general lowering of prices, because such liberalization policies could generate a scenario of monopoly or oligopoly that would allow these corporations to fix prices, as currently happens with mobile network companies in Europe. (Traynor, 2014)

4.4 The Environmental and Public Health Care Issue

Probably, one of the most controversial aspects of the treaty. There are many articles against the possible consequences that the TTIP could bring along on this matter.

Nowadays, it is known that EU regulation on environmental matters, is far tougher than that of the US, a fact that hinders the economic opportunities of many American and European enterprises implicated in the TTIP. European law is based on the precautionary principle, which basically states that a product is not safe if it can't be proven otherwise, while American law is quite the opposite. This can be seen in the cosmetics market; while in the EU there are more than 1,328 banned substances, in the US there is only 11. (Safe Cosmetics, 2013)

All regulation is subject to change in the TTIP and American negotiators (backed up by lobbies) are pushing on this issue to open up European food and health care markets particularly. This means that European supermarkets could be filled up with products that are forbidden in the EU, such as genetically modified food, which accounts for the 70% of all the food sold in the US. Besides, between the *1980s* and the *1990s*, the European Union introduced restrictions on imports of many American products for health reasons. For instance, American farms tend to increase their productivity through the introduction of hormones to animals that make them grow fatter and grow faster. These hormones tend to be related to the proliferation of cancer in humans. That is why the European Union has systematically blocked so many imports, despite harsh criticism from US industries. (Alcazar, 2014)

4.5 The Democratic Issue

One of the supranational institutions of the European Union, and probably the most powerful, is the European Commission. As it has been seen throughout the first years of negotiations of the TTIP, the European Commission has operated independently of its member states, negotiating on behalf of the European population. Furthermore, the EU Commissioners are designated by their national president, instead of being elected by the citizens. This leads to a reality, where, according to Jackson Krase, "*over half of all legislation in modern Europe is proposed by an unelected group of 28 Commissioners.*" (Krase, 2017) This implies that many national policy choices must be handed on to such supranational entities, which are in charge of policy-making and act on behalf of their citizens, yet not having been directly designated by them.

If we look at how negotiations were carried out during the Obama-period (after the leak of 243 pages of negotiations on climate, public health and environment) these were conducted behind the back of European citizens, negotiated at the highest level, surrounded by the counselling and advising of different lobbies. It was within the interests of the negotiating parties that the treaty would have to be approved *via* parliament and not by a referendum which exposed the fears of the negotiators about the participation of the society on this political achievement. (Open Democracy, 2016)

After the leakage, the European Commission began to implement certain measures such as informing the public about the current matters being discussed on the TTIP or assuring that EU standards were not on the table. Yet, it can be stated without a doubt that the beginning of negotiations on TTIP was far from fair and democratic.

4.6 The National Powers

As mentioned above, inside the TTIP there would be a Bilateral Investment Treaty. Such treaty would include a clause known as ISDS (Investor State Dispute Settlement), which allows multinationals to sue those States that pass laws that may harm their economic benefits (present or future). The arbitration tribunals that would make the final decision, would have more power than national tribunals, and would be constituted of three private corporate lawyers.

For instance, the American multinational Phillip-Morris sued Uruguay with $2,300 million in 2010 for placing health alerts on the packs of cigarettes. Despite claims were dismissed, it proved that big corporations can take advantage of smaller nations with less resources. Vattenfall, another multinational, launched a $1,900 million investor claim against Germany in 2009 for putting a moratorium on their nuclear plants. Fundamentally, corporations are able to sue local governments on the basis of non-expropriation, claiming that the government in question has expropriated their future profits.

This means that firms could sue governments on any public policy decisions, limiting national government's decision-making power, and thus, deliberately challenging the most basic democratic principles. (E. Agirre, 2014)

5 Conclusions

It is complicated to remain objective when analysing the TTIP in depth. One can find himself quickly leading towards certain assumptions that might not be based on actual data but rather on feelings or impressions. However, we must remember that this agreement is still under negotiations and it is unclear when will it see the light.

If one was to speculate about the possible outcomes. A deal that would benefit Europe would comprise lower tariffs regarding trade, to generate the benefits of free trade while protecting sensitive areas that we, as Europeans, have strived to protect for such a long time. Assuming that the end to this story is still uncertain, I personally don´t see that the TTIP is going in the right direction; with Donald Trump reopening the doors to negotiations and a weakened post-Brexit EU, I am afraid that the American Government will be far more demanding that the previous administration and European regulations will be at stake once again. It is widely known that Donald Trump has been pushing for reductions in regulation concerning the environment and health care, while avidly supporting American corporations. Such a situation makes me think that, if the European Union wants to negotiate again, the challenges will be greater than in 2013.

Furthermore, if the supranational institutions from the EU act on behalf of EU citizens and their interests, as they claim to do, then I believe negotiations would have been carried out in a very different manner. The fact that both the EU and the US, pushed by lobbies, tried to secretly negotiate a deal in which the population was completely left out, makes one wonder about the true intentions behind the official statements and the true meaning of democracy.

Corporate interests aside, it is well known that the US is a rather protectionist country, and it will ultimately act on behalf of its own interests. As one of the most powerful countries, the US is carrying negotiations on other trade agreements with many other economies. If the EU lets the TTIP train pass by, it might not come back, and it could damage European economy in the long term, since trade with the US could fall in favour of those economies with which the US is negotiating a deal. Globalization is leading to ever-increasing market integration, which seems like social media nowadays: The cost of being left out can be seen as greater in an interconnected world rather than in one that is divided. Therefore, in one way or another, countries are meant to look for new ways of cooperation among themselves, so that they can remain competitive in a globalized world that aims to be like the European Union: different members with different interests, governed by a few who always end up making their own rules.

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